

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-01 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 FEA-01

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R 201525Z MAR 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 439

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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AMEMBASSY ROME

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AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

LIMITED OFFICIAL USE SECTION 1 OF 2 BERN 1233

E.O. 11652: N/A

TAGS: EFIN EEC SZ

SUBJECT: POSSIBLE SWISS FRANC ASSOCIATION WITH MINI-SNAKE;

GENERAL SWISS EXTERNAL FINANCIAL SITUATION

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REF: A) USEC BRUSSELS 2391; B) BERN 1055 (NOTAL)

1. SUMMARY. SWISS ACTIVELY STUDYING POSSIBLE MEANS ASSOCIATE SWISS FRANC (SF) WITH EUROPEAN "MINI-SNAKE" JOINT FLOAT AND HAVE HAD INITIAL CONTACTS WITH EC AS REPORTED REF A. BUT NO DECISION YET MADE TO APPLY AND THERE ARE SEVERAL TECHNICAL AND POLITICAL PROBLEMS TO OVERCOME. SWISS EXPLORATION OF SUBJECT WILL CONTINUE AT MARCH 21-22 VIENNA MEETING OF SWISS, FRG, AND AUSTRIAN FINANCE MINISTERS AND BETWEEN SWISS NATIONAL BANK (SNB) AND APPROPRIATE CENTRAL BANKS. END SUMMARY.

2. SWISS MEDIA MARCH 19 REPORTED EXTENSIVELY ON BRUSSELS MEETINGS MARCH 18 OF "MINI-SNAKE" COUNTRIES AND EC-HINE FINANCE MINISTERS. PRESS ALSO GAVE PROMINENT ATTENTION TO DENIAL BY SWISS NATIONAL BANK SPOKESMAN THAT SWITZERLAND HAD OFFICIALLY APPLIED FOR ASSOCIATION WITH "MINI-SNAKE" AND NOTED THAT IT PREMATURE SPEAK OF ANY SWISS DECISION AS YET. PRESS ARTICLES ALSO REFER TO CONCERN, PARTICULARLY IN DENMARK, ABOUT HAVING ANOTHER STRONG CURRENCY IN JOINT FLOAT UNLESS APPROPRIATE ADJUSTMENTS MADE AT TIME OF SF ENTRY. OTHERS HAVE TOLD US THEY DOUBTFUL ALSO RE REACTION IN NORWAY, SWEDEN, AND BELGIUM. OPERATION OF EXISTING MINI-SNAKE AND POSSIBLE BENEFITS TO SWISS INTERESTS OF ASSOCIATION HAVE BEEN EXTENSIVELY DISCUSSED IN PRESS SINCE IDEA FIRST BROACHED BY SNB PRESIDENT LEUTWILER FEBRUARY 25 (BERN A-50).

3. OUR SOURCES IN GOS CONFIRM THAT SUBJECT IS UNDER STUDY AND THAT NO DECISION HAS BEEN TAKEN BY FEDERAL COUNCIL. POSSIBLE SWISS ASSOCIATION WITH MINI-SNAKE WILL BE EXPLORED FURTHER DURING WEEKEND VIENNA MEETING BETWEEN SWISS FEDERAL COUNCILOR (FINANCE MINISTER) CHEVALLAZ AND HIS AUSTRIAN AND GERMAN COUNTERPARTS AS WELL AS IN OTHER MEETINGS MENTIONED REFTEL A.

4. BASED ON CONVERSATIONS WITH GOVERNMENT OFFICIALS AND BANKERS, WE SEE FOLLOWING PROBLEMS WHICH MUST BE OVERCOME BEFORE ANY SWISS FRANC ASSOCIATION WITH MINI-LIMITED OFFICIAL USE

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SNAKE. WE GATHER SUCH ASSOCIATION MIGHT WELL BE FAIRLY INFORMAL AND FLEXIBLE RATHER THAN REPRESENT BINDING CONTRACTUAL OBLIGATION.

A. SF/DM RELATIONSHIP WAS QUITE STABLE UNTIL JULY 1974 WHEN BANK HERSTATT COLLAPSE CAUSED DEGREE OF LACK OF CONFIDENCE AND CAPITAL FLOW FROM FRG INTO SWITZERLAND. RESULTING APPROXIMATE 10 PERCENT SF AP-

PRECIPATION AGAINST DM IS CAUSE OF MUCH OF SWISS CONCERN
RE EXTERNAL ECONOMIC SITUATION AS EXPRESSED AT RECENT
OECD MEETINGS. (SEE ALSO REFTEL B). TO EXTENT PRESENT
SF/DM RELATIONSHIP IS ABNORMAL AND TEMPORARY, QUESTION
ARISES AS TO WHETHER PRESENT RATE SHOULD BE USED
FOR SF ENTRY INTO SNAKE. LEUTWILER HAS MADE CLEAR
FROM OUTSET THAT SWISS COULD NOT EXPECT USE UNREALISTIC
EXCHANGE RATE FOR ASSOCIATION. SOME FEEL THAT SWISS
BUSINESS CYCLE IS SOMEWHAT BEHIND THAT OF US AND GERMANY
AND THAT OVER TIME MARKET PRESSURES WILL THUS TEND
NATURALLY TO WEAKEN SF AGAINST OTHER MAJOR CURRENCIES.

B. RESURRECTION OF OLD IDEA OF RELATING SF TO
EC CURRENCIES AT THIS TIME OF GENERAL CONCERN ABOUT
SWISS EXTERNAL TRADE SITUATION HAS TENDED RAISE HOPES
AMONG EXPORTERS AND TOURIST INDUSTRY THAT SF WOULD
BE BENEFITED THROUGH ASSOCIATION WITH SNAKE. OUR
CONTACTS RECOGNIZE THAT SUCH IMPROVEMENT UNLIKELY EX-
CEPT TO EXTENT OF PROVIDING MORE STABLE, ORDERLY RATES
WITH DM AND OTHER CURRENCIES. ASSOCIATION WITH SNAKE
WOULD NOT BY ITSELF TEND DEPRECIATE SF AGAINST DOLLAR-
RELATED CURRENCIES.

C. PROSPECTIVE ASSOCIATION WITH MINI-SNAKE ALSO
HAS POLITICAL IMPLICATIONS IN TERMS OF CLOSER SWISS
RELATIONS WITH EC MEMBER STATES WHICH HAVE NOT YET
BEEN THOROUGHLY CONSIDERED.

5. IN ADDITION MINI-SNAKE, DISCUSSION OF OTHER POSSIBLE
MEASURES CONTINUES ALTHOUGH FEDERAL COUNCILOR (ECONOMIC
MINISTER) BRUGGER TOLD PARLIAMENT MARCH 19 THAT EXPORT
SUBSIDIES AND/OR EXCHANGE GUARANTEES FOR EXPORTS HAVE
BEEN REJECTED BY GOS AS HAS TWO-TIER MARKET; IMPORT
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SURCHARGE, AND TIGHT CONTROLS ON BANKS. CALMER FOREIGN
EXCHANGE MARKETS AND SOMEWHAT FIRMER DOLLAR OVER PAST
TWO WEEKS HAVE EASED PRESSURES ON GOS TO TAKE STEPS
IMPROVE COMPETITIVE POSITION OF SWISS INDUSTRY. FEDERAL
POLITICAL DEPARTMENT (FPD) SOURCE RECENTLY TOLD EMBOFF
THAT POSSIBLE EXPORT CREDIT PROGRAM UNDER STUDY NOTING
THAT SWITZERLAND ONE OF FEW COUNTRIES THAT DOES
NOT HAVE GOVERNMENT EXPORT FINANCING FACILITY
AND THAT EXPORT RISK GUARANTEE PROGRAM INADEQUATE
PARTICULARLY IN PRESENT COMPETITIVE ENVIRONMENT.
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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

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6. ADDITIONAL CAPITAL AND/OR MONETARY MEASURES
ARE QUITE POSSIBLE. BANKING SOURCES HAVE OBSERVED
THAT FURTHER CONTROLS AND/OR REPORTING REQUIRE-
MENTS ON FORWARD FOREIGN EXCHANGE TRANSACTIONS SEEM
LIKELY. SOME ADVOCATE ALLOWING EVEN GREATER FOREIGN
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BORROWING IN SWISS CAPITAL MARKET (WITH IMMEDIATE CONVERSION REQUIREMENT), LOOSENING OF DOMESTIC CREDIT CONTROLS, AND MORE ENERGETIC SNB INTERVENTION, POSSIBLY INVOLVING STEPS TO OFFSET LIQUIDITY CREATION. CONSIDERABLE OPPOSITION HAS DEVELOPED AMONG BANKERS TO REIMPOSITION CONTROLS ON FOREIGN PURCHASES OF SWISS STOCKS AND BOND ALTHOUGH THIS IS STILL QUITE POSSIBLE SHOULD FURTHER UPWARD PRESSURE ON SF DEVELOP. BRUGGER, JOLLES AND OTHER OFFICIALS HAVE ALSO BEEN TRYING DIRECT ATTENTION TO EFFECT OF WORLD-WIDE RECESSION ON DEMAND FOR SWISS EXPORTS AND BENEFITS OF CURRENCY APPRECIATION IN TERMS OF LOWER IMPORT COSTS AND STIMULUS TO PRODUCTIVITY IMPROVEMENTS. BUT FURTHER RISE IN ADMITTEDLY VERY LOW UNEMPLOYMENT FIGURES IN FEBRUARY AND SLUGGISH EXPORT DATA FOR SAME MONTH ENSURE THAT CONCERNS OF SWISS EXPORTERS WILL CONTINUE TO RECEIVE ATTENTION.

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